

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS**

**REPORT ON FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2015**

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS**

**CONTENTS**

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position	15
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17
South Carolina Research Foundation - Statement of Net Position	19
South Carolina Research Foundation - Statement of Revenues, Expenses and Changes in Net Position	20
University of South Carolina School of Medicine Educational Trust - Statement of Net Position	21
University of South Carolina School of Medicine Educational Trust - Statement of Revenues, Expenses and Changes in Net Position	22
Non-Governmental Discretely Presented Component Units - Statements of Financial Position	23
Non-Governmental Discretely Presented Component Units - Statements of Activities	24
Notes to the Financial Statements	26
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of the Campuses' Contributions	62
Schedule of the Campuses' Proportionate Share of the Net Pension Liability	63
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	64



## Independent Auditor's Report

The Board of Trustees  
University of South Carolina  
Columbia, South Carolina

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, which represent approximately 84 percent, 94 percent, and 99 percent, respectively, of the assets, net position/assets, and revenues of the Campuses' aggregate discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Campuses are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate discretely presented component units of the Campuses as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Implementation of New Accounting Pronouncement**

As discussed in Notes 1 and 5 to the financial statements, the Campuses adopted the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 effective July 1, 2014. Our audit opinions are not modified with respect to this matter.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Schedule of the Campuses' Contributions, Schedule of the Campuses' Proportionate Share of the Net Pension Liability, and management's discussion and analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015, on our consideration of the Campuses' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Campuses' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
November 20, 2015

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) is composed of the Columbia campus, including the School of Medicine with locations in Columbia and Greenville, as well as the Lancaster, Salkehatchie, Sumter and Union campuses. Management's Discussion and Analysis provides an overview and analysis of the Campuses' financial activities for the fiscal year ended June 30, 2015, with comparative information for the fiscal year ended June 30, 2014. This information should be read in conjunction with the financial statements and accompanying footnotes that follow this section. Condensed fiscal year 2015 and 2014 operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data. In addition, this discussion will focus on operations and financial position of the Campuses. This discussion will not include the discretely presented component units, the South Carolina Research Foundation, the University of South Carolina School of Medicine Educational Trust, the University of South Carolina's Development Foundation, Educational Foundation, Business Partnership Foundation, Alumni Association, and the Educational Foundation of the University of South Carolina - Lancaster.

This report includes a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campuses, the results of operations, and cash flows of the Campuses as a whole.

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campuses' net position is one indicator of the improvement or erosion of the Campuses' financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

**STATEMENT OF NET POSITION**

The Statement of Net Position presents the assets, liabilities, deferred outflows/inflows, and net position of the Campuses as of the end of the fiscal year. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Campuses. The Statement of Net Position presents end-of-year data concerning the following:

- Assets - Property that we own and what we are owed by others.
- Deferred Outflows of Resources - Consumption of net position that is applicable to a future reporting period.
- Liabilities - What we owe to others and have collected from others before we have provided the service.
- Deferred Inflows of Resources - Acquisition of net position by the government that is applicable to a future reporting period.
- Net Position - The difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

The Statement of Net Position is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Campuses. They are also able to determine how much the Campuses owe vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Campuses. Net position is divided into the following three major categories:

- Net investment in capital assets - Provides the institution's equity in property, plant, and equipment owned by the institution.
- Restricted net position -
  - a. Nonexpendable restricted net position consists solely of the institution's permanent endowment funds and is only available for investment purposes.
  - b. Expendable restricted net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
- Unrestricted net position - Represents resources available to the institution for any lawful purpose of the institution.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**Summary of Net Position**

	<b>2015</b>	<b>2014</b>	<b>Increase/ (Decrease)</b>	<b>Percent Change</b>
<b>Assets</b>				
Current assets	\$ 637,420,205	\$ 540,224,975	\$ 97,195,230	17.99%
Capital assets, net	1,137,968,678	1,073,152,160	64,816,518	6.04%
Other noncurrent assets	113,286,297	114,581,151	(1,294,854)	-1.13%
Total assets	<u>1,888,675,180</u>	<u>1,727,958,286</u>	<u>160,716,894</u>	9.30%
<b>Deferred Outflows of Resources</b>				
Deferred loss on debt refunding	5,591,098	4,647,394	943,704	20.31%
Deferred outflows related to net pension liability	53,230,421	-	53,230,421	0.00%
Total deferred outflows of resources	<u>58,821,519</u>	<u>4,647,394</u>	<u>54,174,125</u>	1165.69%
<b>Liabilities</b>				
Current liabilities	129,752,732	128,417,891	1,334,841	1.04%
Noncurrent liabilities	1,172,868,639	489,441,739	683,426,900	139.63%
Total liabilities	<u>1,302,621,371</u>	<u>617,859,630</u>	<u>684,761,741</u>	110.83%
<b>Deferred Inflows of Resources</b>				
Deferred inflows related to net pension liability	<u>51,025,457</u>	-	<u>51,025,457</u>	0.00%
<b>Net Position</b>				
Net investment in capital assets	653,864,435	605,275,419	48,589,016	8.03%
Restricted - nonexpendable	81,558,531	78,766,989	2,791,542	3.54%
Restricted - expendable	118,194,479	126,796,996	(8,602,517)	-6.78%
Unrestricted	(259,767,574)	303,906,646	(563,674,220)	-185.48%
Total net position	<u>\$ 593,849,871</u>	<u>\$ 1,114,746,050</u>	<u>\$ (520,896,179)</u>	<b>-46.73%</b>

- Total assets of the Campuses increased by \$160.7 million. Current assets increased \$97.2 million primarily due to bond issuance proceeds of \$95 million. Capital assets increased \$64.8 million due to starting construction of the new Law School, the completion of several academic building renovations and athletic facility projects during fiscal year 2015. (See Note 4 - Capital Assets).
- Deferred outflows of resources consist of:
  - The unamortized loss on debt refunding. See Note 1, Summary of Significant Accounting Policies, for more information.
  - The Campuses' contributions after the measurement date and differences between the actual and expected experience in relation to the net pension liability recorded for the Campuses' proportionate share of the State of South Carolina's SCRS and PORS net pension liability, due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Note 5, Pension Plans, for more information.
- The increase in total liabilities of \$684.8 million is primarily attributable to a \$602.3 million net pension liability recorded for the implementation of GASB 68. See Notes 1 and 5 for more information. Also, the Campuses issued \$56.7 million in State Institution Bonds and \$38.3 million in Athletic Revenue Bonds during fiscal year 2015.



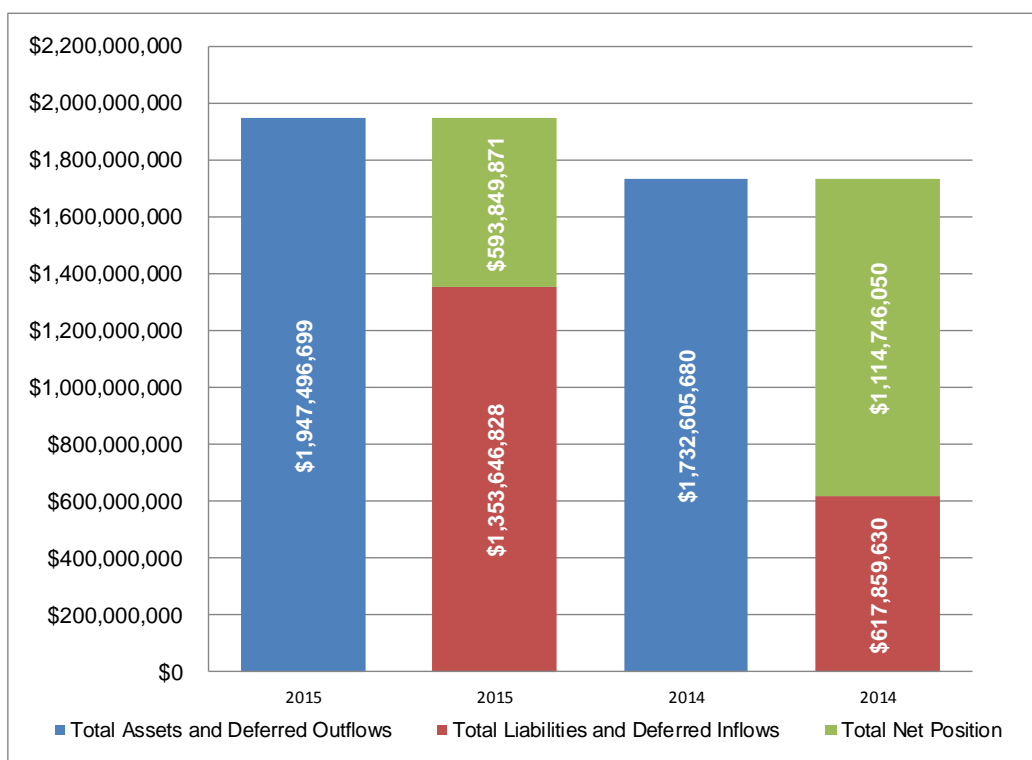
**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
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The net position of the Campuses decreased during the year by \$520.9 million. The decrease is driven by the following:

- \$48.6 million increase in net investment in capital assets - Net investment in capital assets shows the difference between capital assets and the outstanding debt incurred to finance those capital assets. Not all long-term debt may be deducted from capital assets; only the debt issued to finance the Campuses' capital assets is subtracted. Long-term debt associated with unspent bond proceeds is subtracted from the restricted capital project component of net position. Net investment in capital assets increased due to the start-up and completion of various capital projects, including several athletic facility projects, academic building renovations and continued upgrades to campus technology systems.
- \$8.6 million decrease in expendable restricted - Expendable restricted net position represents resources that are constrained to a particular purpose by externally imposed stipulations. These constraints may be derived from the donor of the resources or from an external entity. Also, restrictions can be imposed as a result of enabling legislation. The majority of the decrease in expendable restricted net position is attributed to a decrease in the amount expendable for debt service due to timing of the transfer of funds needed to make debt service payments.
- \$563.7 million decrease in unrestricted net position - Unrestricted net position results from accumulated excesses of revenue over expenses derived from the Campuses' operations. The Campuses' unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net position includes balances from operation of education and general activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net position is not subject to externally imposed stipulations, most of these resources have been committed for specific Campus activities including academic and research programs, capital projects and significant upgrades to the campus technology network. The majority of the decrease was due to the \$602.3 million net pension liability recorded for the implementation of GASB 68. Also, during fiscal year 2015, the Campuses continued to use unrestricted funding towards significant upgrades to campus technology systems.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position**



**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public university's dependency on state aid and gifts will result in operating deficits. GASB requires state appropriations and gifts to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by the Campuses, both operating and nonoperating, and the expenses paid by the Campuses, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Campuses.

Operating revenues are received for providing goods and services to the various customers and constituencies of the Campuses. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Campuses. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor nonoperating revenues.

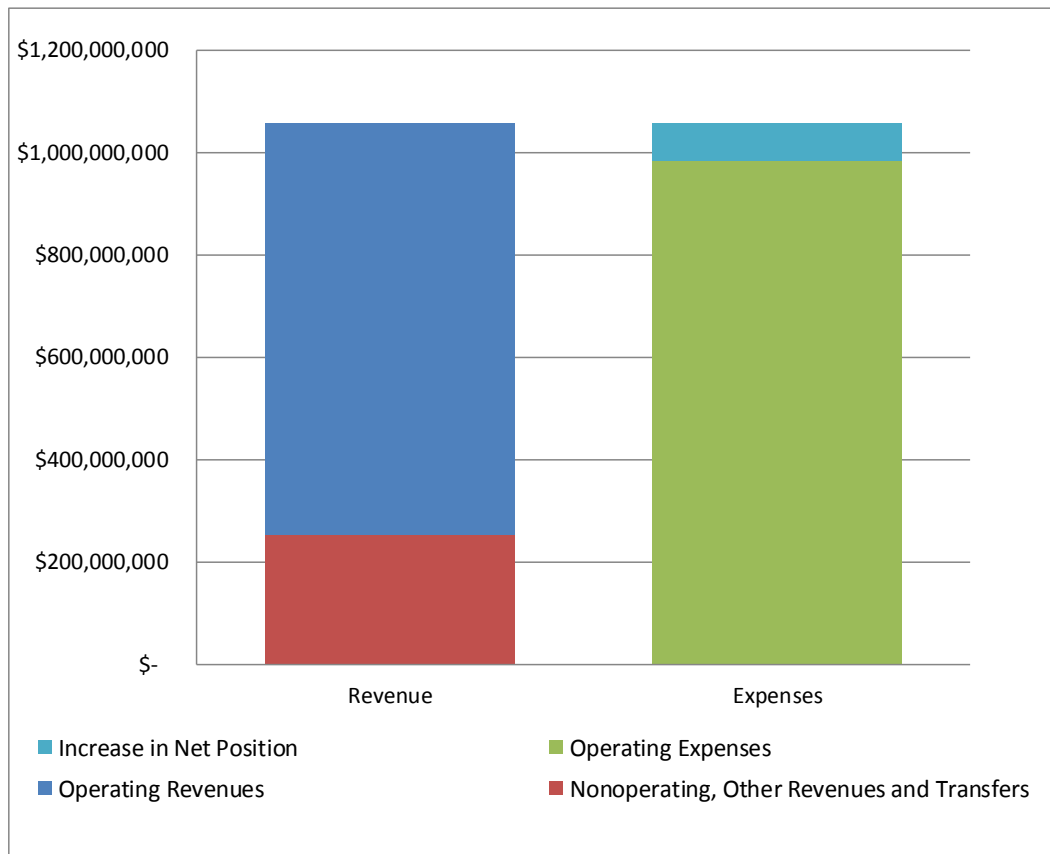
**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**Summary of Revenues, Expenses and Changes in Net Position**

	<b>2015</b>	<b>2014</b>	<b>Increase/ (Decrease)</b>	<b>Percent Change</b>
<b>Operating Revenues:</b>				
Student tuition and fees	\$ 606,643,873	\$ 557,350,176	\$ 49,293,697	8.84%
Less: scholarship allowance	(217,991,020)	(204,972,447)	(13,018,573)	6.35%
Federal grants and contracts	134,927,781	125,027,020	9,900,761	7.92%
State grants and contracts	69,265,455	70,658,329	(1,392,874)	-1.97%
Local grants and contracts	689,993	517,641	172,352	33.30%
Nongovernmental grants and contracts	36,344,616	38,419,991	(2,075,375)	-5.40%
Sales and services of educational and other activities	26,034,508	24,629,890	1,404,618	5.70%
Sales and services of auxiliary enterprises, net	133,739,092	119,240,195	14,498,897	12.16%
Interest collected on student loans	276,057	305,423	(29,366)	-9.61%
Other fees	9,224,802	8,567,535	657,267	7.67%
Other operating revenues	2,205,598	2,094,809	110,789	5.29%
Total operating revenues	801,360,755	741,838,562	59,522,193	8.02%
<b>Operating Expenses:</b>				
Salaries and wages	488,158,629	476,674,643	11,483,986	2.41%
Fringe benefits	154,124,068	140,527,376	13,596,692	9.68%
Services and supplies	236,627,276	216,257,934	20,369,342	9.42%
Utilities	30,306,546	29,916,173	390,373	1.30%
Scholarships and fellowships	15,522,217	16,406,568	(884,351)	-5.39%
Depreciation expense	58,264,861	54,341,468	3,923,393	7.22%
Total operating expenses	983,003,597	934,124,162	48,879,435	5.23%
Operating loss	(181,642,842)	(192,285,600)	10,642,758	-5.53%
Net nonoperating revenues and (expenses)	217,379,413	204,698,006	12,681,407	6.20%
Income before other revenues and transfers	35,736,571	12,412,406	23,324,165	187.91%
Other revenues and transfers	37,305,488	27,782,335	9,523,153	34.28%
Increase in net position	73,042,059	40,194,741	32,847,318	81.72%
Net position at beginning of year, as originally stated	1,114,746,050	1,074,551,309	40,194,741	3.74%
Restatement	(593,938,238)	-	(593,938,238)	0.00%
Net position at beginning of year, as restated	520,807,812	1,074,551,309	(553,743,497)	-51.53%
<b>Net position at end of year</b>	<b>\$ 593,849,871</b>	<b>\$ 1,114,746,050</b>	<b>\$ (520,896,179)</b>	<b>-46.73%</b>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**Revenues, Expenses and Changes in Net Position**



The Statement of Revenues, Expenses and Changes in Net Position reflects a positive year with an increase in net position at the end of the year. Some highlights of the information presented on this summary are as follows:

- An increase of \$59.5 million in total operating revenues is due to the following:
  - Student tuition and fee revenue, net of the scholarship allowance, increased by \$36.3 million primarily due to a 3.16% tuition and required fees increase for USC System campuses. Additionally, student demand for enrollment at the Columbia campus continued to increase with growth of 3.34% in full time equivalent students. The combined tuition and enrollment increase for the Columbia campus accounts for the majority of the fiscal year 2015 change in student tuition and fee revenue.
  - Sales and services of auxiliary enterprises are driven by an increase in SEC revenues for the SEC Network launched during fiscal year 2015 and for additional football bowl games as part of the SEC distribution. There was also a 4.15% increase for University housing fees.
  - Federal contracts and grants increased \$9.9 million due to significant funding increases of \$5.7 million for the Arnold School of Public Health, namely in the areas of Epidemiology and Health Services Policy and Management, \$2 million for the School of Pharmacy's Centers of Biomedical Research Excellence, and \$2.2 million for the School of Social Work.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

- Operating expenses increased \$48.9 million, 5.23% over the prior year. The majority of the increase, approximately \$25.1 million, is due to the increase in personnel and fringe benefits from additional faculty and staff to serve the increased student enrollment, as well as the 2% state pay package and increases in retirement contribution and employer health insurance, and \$6.2 million due to the implementation of GASB 68. Services and supplies increased \$20.4 million due to inflationary and enrollment increases, on-going upgrades to campus technology systems and completion of various capital projects. Depreciation expense increased \$3.9 million due to the University's commitment to the five year Capital Plan resulting in the completion of strategic and deferred maintenance projects over the past several fiscal years.
- Nonoperating revenue and expense changes are primarily due to the lump sum payout of \$31.5 million from the Department of Justice for the cancelation of a lease agreement. For further details on the Department of Justice lease agreement, please refer to Note 14 in the Notes to the Financial Statements.

**STATEMENT OF CASH FLOWS**

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Campuses during the year. The statement is divided into the following five parts.

- Operating Activities - the net cash provided by (used for) the operating activities of the institution.
- Noncapital Financing Activities - the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes.
- Capital and Related Financing Activities - the cash used for the acquisition and construction of capital and related items.
- Investing Activities - the purchases, proceeds, and interest received from investing activities.
- Reconciliation - reconciles the net cash provided by (used for) to the operating income (loss) reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**ADOPTION OF NEW ACCOUNTING STANDARD**

The Campuses implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, in the fiscal year ended June 30, 2015. The implementation of the statement required the University to record beginning net pension liability and the effects on unrestricted net position of contributions made by the University during the measurement period (fiscal year ended June 30, 2014). To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Since the information for the restatement of beginning balances of deferred inflows and resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as restatement to ending net position as of June 30, 2014 decreased by \$593,938,238. This decrease resulted in the cumulative restatement of unrestricted net position to a deficit balance of \$290,031,592 for the year ended June 30, 2014.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

During the year, various projects on the Columbia campus were in progress including renovations to the College of Information and Communications (formerly Health Sciences building) and College of Social Work buildings, construction of the Law School, and several projects addressing deferred maintenance. The Athletics department also had several projects in progress including construction of the new football indoor practice facility.

The Campuses' indebtedness consists of bonds payable of \$547.6 million and notes payable of \$30,825. During the current year, \$56.7 million in state institution bonds were issued for the construction of the new Law School and Student Health Center, \$21.3 million in State Institution refunding bonds were issued to achieve interest savings, and \$38.3 million in Athletic Facility Revenue Bonds were issued to fund various athletic projects.

For more detailed information on capital asset and debt activity please refer to Note 4 - Capital Assets and Note 9 - Bonds and Notes Payable in the Notes to the Financial Statements.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

**ECONOMIC OUTLOOK**

The economic position of the Campuses continues to be loosely tied to that of the State of South Carolina (the State) as evidenced by the Campuses' sustained strong financial performance despite significant reductions in state appropriations from 2008 through 2012. The Campuses received additional recurring state funding to begin the 2015 fiscal year to support a portion of state employee health insurance increases and provide parity funding for Campuses to address the base state funding per student inequities. Additionally the State provided new funding totaling \$2 million to support the On Your Time Initiative. This initiative, developed by the University's President, recognizes that the traditional university academic calendar has become antiquated and inflexible for today's student, many times impeding timely degree completion, costing students more in tuition and student loans, and delaying employment in South Carolina's economy. By redefining the traditional university academic calendar, providing flexibility and maximizing assets, the University will provide a model for colleges and universities in the State and beyond her borders. This \$2 million in new funding is added to \$1.2 million received in the 2015 year.

The State finished the 2015 fiscal year on a positive note with full funding of the State's Rainy Day Fund at 5% of the prior year's General Fund Revenues and also fully funded the Capital Reserve Account at 2% of the prior year's General Fund Revenues. The Campuses are beneficiaries of the seventh straight year of state surpluses, with just more than \$1.4 million in non-recurring state funds and excess lottery proceeds available for operations and maintenance projects in 2016. In 2015, the State funded a subcommittee designed to study higher education efficiency, effectiveness and accountability review for all public higher education institutions and supporting this initiative through allocation of \$2.7 million. However, following several meetings of this specially appointed committee, the State directed the funds to be provided to each institution in 2016 for deferred maintenance, resulting in \$1.1 million available to the USC System for deferred maintenance.

The Campuses' overall financial position remains strong. The Campuses rely on tuition and fees to support the general operating budget and is aware of State funding support when tuition and fees are set. Tuition increases for the 2016 year are in line with the Higher Education Price Index (HEPI) but will not cover the full impact of all inflationary needs and new initiatives. In the face of funding challenges, looming cost increases from utilities and health insurance, and strategic needs to address academic and student support initiatives, the USC Board of Trustees approved a conservative and prudent budget that holds the tuition increase to 2.9%, the smallest increase since 1999. Resident undergraduate tuitions for two other public institutions in the State exceed the tuition rate for the USC Columbia campus. System campus tuitions are comparable with similar institutions in the State.

Demand for enrollment and interest in the Campuses remain strong with record numbers of applications received and a freshman class enrolled at the USC Columbia campus for Fall 2015 of nearly 5,125 students. Preliminary data indicates that this entering class is also the most academically talented in the Campuses' history with an average SAT score of 1210 and an average ACT score of 27.4. The Campuses continue to cultivate both student quality and access through the development of innovative programs such as the Gamecock Gateway. The Gamecock Gateway is a program in its fourth year designed as a bridge to enrollment at the University. This one-year residential program is offered by invitation only to students who begin their course work at a local technical college and have access to University programs before transferring in their second year. For the Fall 2015 semester 349 new students are enrolled in the Gamecock Gateway and 464 students from the first two years of the bridge program are now fully enrolled at USC Columbia.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Management's Discussion and Analysis  
(Unaudited)**

University fundraising is nearing the completion of Carolina's Promise, the largest capital campaign in University history with a \$1 billion goal. As of June 30, 2015 the University has raised \$1,043,265,730 exceeding the goal with support from 136,850 donors. Research grant awards were \$248.8 million in the 2015 fiscal year, a \$12.6 million increase over the prior year. The University research award experience is counter to the national trend of declining Federal awards due to Sequestration.



**UNIVERSITY OF SOUTH CAROLINA**  
**COLUMBIA AND REGIONALS**  
**Statement of Net Position**  
**June 30, 2015**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 378,623,253
Restricted - cash and cash equivalents	200,618,057
Accounts receivable, net	47,451,292
Student loans receivable, current	3,519
Capital improvement bonds proceeds receivable	78,883
Inventories	1,788,192
Prepaid items	5,076,513
Funds due from others	3,780,496
Total current assets	<u>637,420,205</u>

Noncurrent assets:

Restricted - cash and cash equivalents	87,227,395
Investments	4,829,187
Prepaid items	2,100,000
Restricted - federal student loans receivable	16,336,660
Capital assets, net of accumulated depreciation	1,137,968,678
Other assets	2,793,055
Total noncurrent assets	<u>1,251,254,975</u>
Total assets	<u>1,888,675,180</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred loss on debt refunding	5,591,098
Deferred outflows related to net pension liability	53,230,421
Total deferred outflows of resources	<u>58,821,519</u>

**LIABILITIES**

Current liabilities:

Accounts payable	19,797,264
Retainage payable - current portion	1,324,859
Accrued interest payable	3,930,204
Accrued payroll and related liabilities	15,586,580
Accrued compensated absences - current portion	17,518,783
Capital lease obligations - current portion	686,756
Bonds and notes payable - current portion	22,773,049
Unearned revenues	44,207,045
Deposits	2,154,140
Other liabilities	545,448
Funds held for others	1,228,604
Total current liabilities	<u>129,752,732</u>

Noncurrent liabilities:

Retainage payable	2,165,889
Accrued compensated absences	13,215,924
Federal loan liability	15,698,257
Capital lease obligations	14,569,876
Bonds and notes payable	524,901,080
Net pension liability	602,317,613
Total noncurrent liabilities	<u>1,172,868,639</u>
Total liabilities	<u>1,302,621,371</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to net pension liability	<u>51,025,457</u>
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**NET POSITION**

Net investment in capital assets	653,864,435
Restricted for:	
Nonexpendable	81,558,531
Expendable	
Scholarships, research, instruction, and other	26,781,018
Loans	2,619,604
Capital projects	85,344,187
Debt service	3,449,670
Unrestricted	(259,767,574)
Total net position	<u>\$ 593,849,871</u>

*See Notes to the Financial Statements*

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Statement of Revenues, Expenses and Changes in Net Position  
For the year ended June 30, 2015**

**OPERATING REVENUES**

Student tuition and fees (\$27,614,308 pledged for bonds)	\$ 606,643,873
Less: scholarship allowance	(217,991,020)
Federal grants and contracts	134,927,781
State grants and contracts	69,265,455
Local grants and contracts	689,993
Nongovernmental grants and contracts	36,344,616
Sales and services of educational and other activities	26,034,508
Sales and services of auxiliary enterprises (\$15,709,426 pledged for bonds)	137,469,027
Less: scholarship allowance	(3,729,935)
Interest collected on student loans	276,057
Other fees (\$4,026,918 pledged for bonds)	9,224,802
Other operating revenues	<u>2,205,598</u>
Total operating revenues	<u>801,360,755</u>

**OPERATING EXPENSES**

Salaries and wages	488,158,629
Fringe benefits	154,124,068
Services and supplies	236,627,276
Utilities	30,306,546
Scholarships and fellowships	15,522,217
Depreciation expense	<u>58,264,861</u>
Total operating expenses	<u>983,003,597</u>
Operating loss	<u>(181,642,842)</u>

**NONOPERATING REVENUES (EXPENSES)**

State appropriations	126,116,868
Federal grants	32,069,556
Gifts	42,521,312
Investment income	2,509,688
Endowment income	3,139,708
Loss on disposal of capital assets	(2,127,533)
Interest on capital asset related debt	(18,350,186)
Lease termination agreement	<u>31,500,000</u>
Net nonoperating revenues	<u>217,379,413</u>
Income before other revenues and transfers	35,736,571
State capital appropriations	7,756,343
Capital grants and gifts	26,380,819
Additions to permanent endowments	2,969,521
Transfers from other campuses, net	<u>198,805</u>
Change in net position	<u>73,042,059</u>

**NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED**

Restatement	<u>(593,938,238)</u>
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**NET POSITION, BEGINNING OF YEAR, AS RESTATED**

	<u>520,807,812</u>
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**NET POSITION, END OF YEAR**

	<u><b>\$ 593,849,871</b></u>
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*See Notes to the Financial Statements*

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Statement of Cash Flows  
For the year ended June 30, 2015**

**OPERATING ACTIVITIES**

Student tuition and fees	\$ 388,842,690
Research grants and contracts	242,263,153
Sales and services of educational and other activities	25,883,179
Sales and services of auxiliary enterprises	135,781,403
Student loans disbursed	(2,793,802)
Student loans collected	2,935,578
Interest collected on student loans	276,057
Inflows from federal direct student loans	228,156,124
Outflows from federal direct student loans	(227,207,494)
Payments to employees for services	(487,102,429)
Payments for employee benefits	(145,862,260)
Payments to suppliers	(273,442,790)
Payments to students for scholarships and fellowships	(15,522,217)
Other receipts	11,360,556
Inflows from agency funds	75,222,512
Outflows from agency funds	<u>(72,468,112)</u>
Net cash used for operating activities	<u>(113,677,852)</u>

**NONCAPITAL FINANCING ACTIVITIES**

State appropriations	126,116,868
Federal grants	32,069,556
Gifts and grants	39,185,992
Additions to permanent endowments	3,844,558
Lease termination agreement	31,500,000
Transfers to other campuses, net	211,730
Federal loan liability	<u>279,123</u>
Net cash provided by noncapital financing activities	<u>233,207,827</u>

**CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from capital debt	169,544,385
Proceeds from state capital appropriations	10,502,307
Capital grants and gifts	18,745,629
Proceeds from sale of capital assets	162,440
Purchase and construction of capital assets	(110,534,778)
Principal paid on capital asset related debt	(83,431,014)
Interest paid on capital asset related debt	<u>(21,854,478)</u>
Net cash used for capital and related financing activities	<u>(16,865,509)</u>

**INVESTING ACTIVITIES**

Proceeds from note receivable	6,445,101
Investment Income	2,657,623
Endowment Income	<u>3,199,230</u>
Net cash provided by investing activities	<u>12,301,954</u>

Net increase in cash and cash equivalents	114,966,420
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Cash and cash equivalents, beginning of year	<u>551,502,286</u>
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Cash and cash equivalents, end of year	<u><b>\$ 666,468,706</b></u>
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**Reconciliation of cash and cash equivalents**

Cash and cash equivalents	\$ 378,623,253
Restricted - cash and cash equivalents, current	200,618,057
Restricted - cash and cash equivalents, noncurrent	<u>87,227,395</u>
	<u><b>\$ 666,468,705</b></u>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Statement of Cash Flows  
For the year ended June 30, 2015**

**Reconciliation of operating loss to net cash  
used for operating activities**

Operating loss	\$ (181,642,842)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	58,264,861
Accrued benefits related to net pension liability	6,174,411
Student loans cancelled	159,220
Change in current assets and liabilities	
Accounts receivable, net	(1,641,263)
Student loans receivable	141,776
Inventories	(216,944)
Prepaid items	6,514,855
Accounts payable	(14,405,488)
Retainage payable - noncapital	1,439,389
Accrued payroll	242,788
Accrued benefits	2,087,397
Accrued compensated absences	813,412
Unearned revenues	4,828,073
Deposits	(6,737)
Other liabilities	(133,790)
Funds held for others	3,703,030
Net cash used for operating activities	<u><u>\$ (113,677,852)</u></u>

**NONCASH TRANSACTIONS**

Gifts of capital assets reducing proceeds of capital grants and gifts	<u><u>\$ 12,119,906</u></u>
Loss on disposal of capital assets, net	<u><u>\$ (2,127,533)</u></u>
Transfer of capital assets to other campuses, net	<u><u>\$ (12,924)</u></u>
Change in value of other assets for cash surrender value of life insurance recognized in endowment income	<u><u>\$ 118,457</u></u>
Change in value of investments recognized in endowment and investment income	<u><u>\$ (177,979)</u></u>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
South Carolina Research Foundation  
Governmental Discretely Presented Component Unit  
Statement of Net Position  
June 30, 2015**

**ASSETS**

Current assets

Cash and cash equivalents	\$ 512,488
Restricted cash and cash equivalents	55,877,229
Accounts receivable, net	26,893,148
Prepaid items and deposits	<u>99,466</u>
Total current assets	<u>83,382,331</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>207,664</u>
Total noncurrent assets	<u>207,664</u>
Total assets	<u>83,589,995</u>

**LIABILITIES**

Current liabilities

Accounts payable and accrued expenses	67,840,132
Unearned revenue	14,940,765
Current portion of notes payable	<u>20,640</u>
Total liabilities	<u>82,801,537</u>

**NET POSITION**

Net investment in capital assets	33,638
Unrestricted	<u>754,820</u>
Total net position	<u><b>\$ 788,458</b></u>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
South Carolina Research Foundation  
Governmental Discretely Presented Component Unit  
Statement of Revenues, Expenses and Changes in Net Position  
For the year ended June 30, 2015**

**REVENUES**

Operating revenues	
Federal grants and contracts	\$ 30,661,397
Nongovernmental grants and contracts	91,654,027
Management fees and recoveries	5,376,708
Royalty income	250,821
Other operating revenues	<u>21</u>
Total operating revenues	<u>127,942,974</u>

**EXPENSES**

Operating expenses	
Salaries and benefits	771,998
Services and supplies	795,324
Research and development direct costs	<u>126,381,240</u>
Total operating expenses	<u>127,948,562</u>
Operating loss	<u>(5,588)</u>

**NONOPERATING REVENUES (EXPENSES)**

Private gifts and donations	(162,665)
Interest income	<u>8,552</u>
Net nonoperating expenses	<u>(154,113)</u>
Change in net position	(159,701)

<b>NET POSITION, BEGINNING OF YEAR</b>	<u>948,159</u>
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<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 788,458</u></u>
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**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
School of Medicine Educational Trust  
Governmental Discretely Presented Component Unit  
Statement of Net Position  
June 30, 2015**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 20,362,134
Investments	9,861,009
Patient accounts receivable, less allowance for doubtful accounts of \$2,703,000	2,529,000
Other accounts receivable	9,978,880
Limited use assets	<u>354,177</u>
Total current assets	<u>43,085,200</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>11,677,267</u>
Total noncurrent assets	<u>11,677,267</u>
Total assets	<u>54,762,467</u>

**LIABILITIES**

Current liabilities	
Accounts payable and accrued expenses	5,358,166
Accrued compensated balances	1,053,555
Current portion of revenue bonds	4,675,000
Current portion of capital lease obligations	<u>306,325</u>
Total current liabilities	<u>11,393,046</u>
Noncurrent liabilities	
Long term capital lease obligations	<u>590,908</u>
Total noncurrent liabilities	<u>590,908</u>
Total liabilities	<u>11,983,954</u>

**NET POSITION**

Net investment in capital assets	7,447,200
Unrestricted	<u>35,331,313</u>
Total net position	<u><u>\$ 42,778,513</u></u>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
School of Medicine Educational Trust  
Governmental Discretely Presented Component Unit  
Statement of Revenues, Expenses and Changes in Net Position  
For the year ended June 30, 2015**

**REVENUES**

Operating revenues	
Patient charges, net of contractual allowances & discounts	\$ 35,108,909
Less, provision for bad debts	<u>(2,502,000)</u>
Net patient service revenue less provision for bad debts	32,606,909
Other contract and professional income	26,796,489
Realized investment income, net	471,051
Rental income	101,250
Other income	<u>11,337,386</u>
Total operating revenues	<u>71,313,085</u>

**EXPENSES**

Operating expenses	
Support of medical school and clinical facilities	6,776,150
Operation of clinical facilities	56,898,078
Operation of building and equipment	<u>2,300,174</u>
Total operating expenses	<u>65,974,402</u>
Operating income	5,338,683

**NONOPERATING REVENUES (EXPENSES)**

Unrealized loss on investment holdings, net	<u>(248,484)</u>
Change in net position	5,090,199

<b>NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED</b>	38,438,314
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Restatement	<u>(750,000)</u>
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<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	<u>37,688,314</u>
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<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 42,778,513</u></u>
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**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Non-Governmental Discretely Presented Component Units  
Statements of Financial Position  
June 30, 2015**

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,104,221	\$ 8,819,346	\$ 1,949,589	\$ 5,767,614	\$ 462,357	\$ 19,103,127
Investments	35,897,932	344,899,954	54,059,441	6,344,653	8,073,062	449,275,042
Real estate held for investment	25,305,723	1,814,646	-	-	-	27,120,369
Assets held in trust	-	67,459,212	5,089,881	-	-	72,549,093
Accounts receivable	163,229	5,382,076	1,370,037	2,149,571	-	9,064,913
Contributions receivable, net	2,280,315	43,049,096	3,855,132	-	333,269	49,517,812
Prepaid expenses	26,428	-	11,535	253,991	-	291,954
Other assets	487,003	704,028	52,904	41,355	-	1,285,290
Fixed assets, net of depreciation	67,998,678	-	-	19,846,433	8,742,247	96,587,358
Total assets	<u>\$ 134,263,529</u>	<u>\$ 472,128,358</u>	<u>\$ 66,388,519</u>	<u>\$ 34,403,617</u>	<u>\$ 17,610,935</u>	<u>\$ 724,794,958</u>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 6,820,850	\$ 8,875,118	\$ 703,802	\$ 3,914,778	\$ -	\$ 20,314,548
Lines-of-credit	21,250,076	-	-	-	-	21,250,076
Deferred revenues	316,708	-	2,650	301,200	-	620,558
Bonds and notes payable	63,471,567	22,157,226	-	17,016,917	4,309,681	106,955,391
Interest rate swap	4,977,137	-	-	-	-	4,977,137
Other liabilities	442,682	8,561,564	340,774	-	-	9,345,020
Total liabilities	<u>97,279,020</u>	<u>39,593,908</u>	<u>1,047,226</u>	<u>21,232,895</u>	<u>4,309,681</u>	<u>163,462,730</u>
<b>NET ASSETS</b>						
Unrestricted	9,192,519	67,192,144	13,978,977	8,839,638	5,751,464	104,954,742
Temporarily restricted	24,828,012	151,969,814	23,581,443	4,331,084	2,375,072	207,085,425
Permanently restricted	3,365,928	213,372,492	27,780,873	-	5,174,718	249,694,011
Total Foundation net assets	<u>37,386,459</u>	<u>432,534,450</u>	<u>65,341,293</u>	<u>13,170,722</u>	<u>13,301,254</u>	<u>561,734,178</u>
Noncontrolling interest	(401,950)	-	-	-	-	(401,950)
Total net assets	<u>36,984,509</u>	<u>432,534,450</u>	<u>65,341,293</u>	<u>13,170,722</u>	<u>13,301,254</u>	<u>561,332,228</u>
Total liabilities and net assets	<u>\$ 134,263,529</u>	<u>\$ 472,128,358</u>	<u>\$ 66,388,519</u>	<u>\$ 34,403,617</u>	<u>\$ 17,610,935</u>	<u>\$ 724,794,958</u>

*See Notes to the Financial Statements*

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Non-Governmental Discretely Presented Component Units  
Statements of Activities  
For the year ended June 30, 2015**

	<b>University of South Carolina Development Foundation</b>	<b>University of South Carolina Educational Foundation</b>	<b>University of South Carolina Business Partnership Foundation</b>	<b>Greater University of South Carolina Alumni Association</b>	<b>Educational Foundation of the University of South Carolina Lancaster</b>	<b>Total</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>						
Revenues, gains and other support						
Contributions	\$ 13,475	\$ 18,460,285	\$ 1,421,389	\$ 1,770,030	\$ 1,059,577	\$ 22,724,756
Investment returns	1,089,563	3,053,884	621,581	113,931	49,582	4,928,541
Net realized and unrealized gains (losses)	(4,666,234)	2,892,941	-	214,739	-	(1,558,554)
Earned income	4,565,531	-	2,499,377	428,739	-	7,493,647
Other	462,939	1,653,655	-	1,656,382	42,512	3,815,488
Net assets released from restrictions:						
Transfers	-	-	712,291	-	196,813	909,104
Reclassification based on law change	-	-	253	-	-	253
Satisfaction of program restrictions	-	5,893,438	2,758,737	-	46,097	8,698,272
Expiration of time restrictions	217,045	8,798,597	-	272,968	-	9,288,610
<b>Total revenues, gains and other support</b>	<b>1,682,319</b>	<b>40,752,800</b>	<b>8,013,628</b>	<b>4,456,789</b>	<b>1,394,581</b>	<b>56,300,117</b>
Expenses						
Scholarships and student assistance	-	10,313,379	1,095,514	251,843	197,807	11,858,543
Program services	1,128,644	35,434,533	5,438,464	1,902,043	640,910	44,544,594
Supporting services	4,379,983	4,675,781	294,692	1,173,857	355,483	10,879,796
<b>Total expenses</b>	<b>5,508,627</b>	<b>50,423,693</b>	<b>6,828,670</b>	<b>3,327,743</b>	<b>1,194,200</b>	<b>67,282,933</b>
Excess revenues over (under) expenses	(3,826,308)	(9,670,893)	1,184,958	1,129,046	200,381	(10,982,816)
Interest rate swap fair value adjustment	(2,559,758)	-	-	-	-	(2,559,758)
<b>Change in unrestricted net assets</b>	<b>(6,386,066)</b>	<b>(9,670,893)</b>	<b>1,184,958</b>	<b>1,129,046</b>	<b>200,381</b>	<b>(13,542,574)</b>

*See Notes to the Financial Statements*

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Non-Governmental Discretely Presented Component Units  
Statements of Activities  
For the year ended June 30, 2015**

	University of South Carolina Development Foundation	University of South Carolina Educational Foundation	University of South Carolina Business Partnership Foundation	Greater University of South Carolina Alumni Association	Educational Foundation of the University of South Carolina Lancaster	Total
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>						
Contributions	1,270,050	11,956,906	1,979,548	528,132	(20,518)	15,714,118
Investment returns	445,719	2,648,953	1,907,699	-	235,635	5,238,006
Net realized and unrealized gains	-	6,750,264	-	-	-	6,750,264
Other	11,498	163	-	254,927	-	266,588
Net assets released from restrictions:						
Transfers	-	-	(1,804,854)	-	(263,523)	(2,068,377)
Reclassification based on law change	-	-	(253)	-	-	(253)
Satisfaction of program restrictions	-	(6,012,541)	(2,758,737)	-	(46,097)	(8,817,375)
Expiration of time restrictions	(217,045)	(12,812,543)	-	(272,968)	-	(13,302,556)
Change in temporarily restricted net assets	<u>1,510,222</u>	<u>2,531,202</u>	<u>(676,597)</u>	<u>510,091</u>	<u>(94,503)</u>	<u>3,780,415</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>						
Contributions	-	9,619,955	345,003	-	142,772	10,107,730
Net assets released from restrictions:						
Transfers	-	-	1,092,563	-	66,710	1,159,273
Satisfaction of program restrictions	-	119,103	-	-	-	119,103
Expiration of time restrictions	-	4,013,946	-	-	-	4,013,946
Change in permanently restricted net assets	<u>-</u>	<u>13,753,004</u>	<u>1,437,566</u>	<u>-</u>	<u>209,482</u>	<u>15,400,052</u>
Change in net assets	(4,875,844)	6,613,313	1,945,927	1,639,137	315,360	5,637,893
Net change attributable to noncontrolling interest	(56,514)	-	-	-	-	(56,514)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>42,318,817</u>	<u>425,921,137</u>	<u>63,395,366</u>	<u>11,531,585</u>	<u>12,985,894</u>	<u>556,152,799</u>
<b>NET ASSETS, END OF YEAR</b>	<u><b>\$ 37,386,459</b></u>	<u><b>\$ 432,534,450</b></u>	<u><b>\$ 65,341,293</b></u>	<u><b>\$ 13,170,722</b></u>	<u><b>\$ 13,301,254</b></u>	<u><b>\$ 561,734,178</b></u>

*See Notes to the Financial Statements*

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations*** - The University of South Carolina - Columbia and Regionals (collectively referred to as the Campuses) is composed of the Columbia campus, including the School of Medicine with locations in Columbia and Greenville, as well as the Lancaster, Salkehatchie, Sumter and Union campuses. The Campuses are all State-supported, coeducational institutions of higher education. The Campuses' primary purpose is to provide undergraduate, graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

***Reporting Entity*** - The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure* provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the Campuses as the primary government and other related entities as discretely presented component units. The Campuses' discretely presented component units are discussed in Note 11.

The Campuses are part of the University of South Carolina (the University) system. The University is a component unit of the State of South Carolina (the State). As a discretely presented component unit of the State, the University is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

***Financial Statements*** - The financial statement presentation for the Campuses meets the requirements of GASB Codification Section 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campuses' net position, revenues, expenses and changes in net position and cash flows.

***Use of Estimates*** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

***Basis of Accounting*** - For financial reporting purposes, the Campuses are considered to be engaged only in business-type activities. Accordingly, the Campuses' financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the Campuses consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Campuses participate in the State's internal cash management pool, administered by the State Treasurer. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Campuses report deposits in the general deposit account at cost and the special deposit accounts at fair value. Interest earned, including interest income, realized gains (losses) and unrealized gains (losses), by the Campuses' special deposit accounts is posted at the end of each month based on the percentage of the Campuses' accumulated daily income receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year end based on the percentage of ownership in the pool.

**Investments** - The Campuses account for their investments at fair value in accordance with GASB Codification Section 150, *Investments*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position.

**Accounts Receivable** - Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal, State, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Campuses' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

**Inventories** - Inventories are carried at the lower of cost or market as determined by various methods.

**Noncurrent Cash and Investments** - Noncurrent cash and investments primarily consist of permanently endowed funds, debt service reserve funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net position.

**Prepaid Items** - Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Capital Assets** - Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Campuses follow capitalization guidelines established by the State. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Campuses capitalize movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 55 years for buildings and improvements and land improvements; 2 to 25 years for machinery, equipment, and vehicles; and 3 to 10 years for intangibles. A full month of depreciation is taken the month the asset is placed in service and no depreciation is taken in the month of disposition.

The Campuses capitalize as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore, asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2015 was \$1,424,685.

**Unearned Revenues and Deposits** - Unearned revenues include amounts billed for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. The majority of unearned revenues are related to auxiliary activities including, but not limited to, athletic tickets sales and parking revenues. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

**Compensated Absences** - Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

**Noncurrent Liabilities** - Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; (3) net pension liability; and (4) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***Deferred Outflows of Resources*** - the consumption of net position that is applicable to future reporting periods. The University's deferred outflows of resources consist of (1) Deferred loss on debt refunding - the defeasance of previously outstanding bonds resulted in deferred refunding losses. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter; (2) Net pension liability - decreases in net pension liability that were not included in pension expense are reported as deferred outflows of resources. Also, employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

***Deferred Inflows of Resources*** - the acquisition of net position that is applicable to future reporting periods. The University's deferred inflows of resources consist of increases in the net pension liability that were not included in pension expense are reported as deferred inflows of resources.

***Net Position*** - Components of the Campuses' net position are classified as follows:

***Net investment in capital assets:*** This represents the Campuses' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

***Restricted - nonexpendable:*** The restricted nonexpendable component of net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

***Restricted - expendable:*** The restricted expendable component of net position includes resources which the Campuses are legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

***Unrestricted:*** The unrestricted component of net position represents resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Campuses, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Campuses' policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

***Income Taxes*** - The University is a political subdivision of the State and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campuses may be subject to taxation as unrelated business income.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Classification of Revenues** - The Campuses have classified their revenues as either operating or nonoperating revenues according to the following criteria:

*Operating revenues:* Operating revenues generally result from exchange transactions to provide goods or services related to the Campuses' principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campuses; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campuses would not otherwise undertake.

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

**Scholarship Allowance-** Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campuses, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Campuses' financial statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Campuses have recorded a scholarship discount and allowance.

**Rebatable Arbitrage** - Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Campuses had no rebatable arbitrage liability at June 30, 2015.



**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Donor-Restricted Endowments** - Endowments are subject to restrictions requiring that the principal be invested and that only the income be used for specific purposes. If a donor has not provided specific timing instructions, state law permits the Board of Trustees to authorize for expenditure the endowment's net appreciation. Any net appreciation that is spent is required to be spent for the purpose for which the endowment was established. The Campuses have a total return policy for authorizing and spending endowment income.

At June 30, 2015, \$12,550,156 of the amount reported as *net position, restricted expendable - scholarships, research, instruction and other*, represented net appreciation of donor-restricted endowments.

**Adoption of New Accounting Standard** - Effective for the fiscal year ending June 30, 2015, the Campuses adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. As a result of this implementation, the Campuses will now report its portion of the State of South Carolina's net pension liability. Since the information for the restatement of beginning balances of deferred inflows of resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the Statement implementation will be shown as a restatement to beginning net position. The effect of this implementation is discussed in Note 5.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS**

Most deposits and investments of the Campuses are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors.

The following schedule reconciles deposits and investments within the notes to the statement of net position amounts:

<b>Statement of Net Position</b>		<b>Notes</b>	
Cash and cash equivalents (current)	\$ 378,623,253	Cash on hand	\$ 303,833
Restricted cash and cash equivalents (current) for :		Deposits held by State Treasurer	662,826,382
Debt service	4,094,255	Other deposits	3,338,490
Scholarship, research, instruction, and other	30,699,264	Investments held by State Treasurer	3,047,775
University administered loans	235,800	Other investments	1,781,412
Capital projects	165,588,738		
	<u>200,618,057</u>		
Restricted cash and cash equivalents (noncurrent) for:			
Endowments	76,148,691		
Federal student loans	1,748,513		
Debt service reserves	9,330,191		
	<u>87,227,395</u>		
Investments (noncurrent)	<u>4,829,187</u>		
	<u><u>\$ 671,297,892</u></u>		<u><u>\$ 671,297,892</u></u>

***Deposits Held by State Treasurer*** - State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 2 - CASH AND CASH EQUIVALENTS, OTHER DEPOSITS, AND INVESTMENTS, Continued**

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina. For the fiscal year ending June 30, 2015, \$7,344,260 of the \$662,826,382 identified above as "Deposits held by State Treasurer" is attributable to unrealized appreciation.

**Other Deposits** - The Campuses' other deposits at year-end were entirely covered by federal depository insurance or were fully collateralized by securities held by the pledging bank's trust department.

**Investments Held by State Treasurer and Other Investments** - The Campuses' investments include common stock held by the State Treasurer for the Campuses.

The Campuses have other investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, the Campuses will not be able to recover the value of the investments or collateral securities that are in possession of an outside party.

The Campuses do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Other investments totaling \$1,589,412 were collateralized by securities held by the pledging bank's trust department but not in the Campuses' name.

The net change in unrealized depreciation of investments for the current fiscal year was \$177,979.

**NOTE 3 - RECEIVABLES**

**Accounts Receivable** - Accounts receivable consisted of the following:

Student and sponsors	\$ 25,177,590
Auxiliary enterprises	3,949,965
Federal grants and contracts	17,812,366
State grants and contracts	218,004
Local grants and contracts	45,492
Non-governmental grants and contracts	2,141,085
Accrued interest	1,118,024
	<hr/>
	50,462,526
Less allowance for doubtful accounts	(3,011,234)
	<hr/>
Accounts receivable, net	<b><u>\$ 47,451,292</u></b>

Allowances for doubtful accounts are based upon actual losses experienced in prior years and evaluations of the current accounts.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 3 - RECEIVABLES, Continued**

***Student Loans Receivable and Federal Loan Liability*** - Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise.

The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the Campuses ceased to participate in the programs.

As the Campuses determine that loans are uncollectible, the loans are assigned to the federal agency administering the loan programs.

***Capital Improvement Bonds Proceeds Receivable*** - This amount represents outstanding state capital improvement and infrastructure bond fund proceeds, and capital reserve fund appropriations that have been expended but not yet drawn.

The State has authorized capital improvement bonds, research infrastructure bonds, university infrastructure bonds and capital reserve fund appropriations to fund improvements and expansion of state facilities. The Campuses are not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred.

The Campuses have \$68,867 of outstanding capital improvement bond authorization, \$2,836,340 of outstanding research infrastructure bond authorization, and \$12,183,049 of capital reserve fund appropriations. These funds are available but have not yet been drawn down because the expenditures have not been incurred.

***Notes Receivable*** - As authorized by the South Carolina Code of Laws, the Campuses may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation (the Foundation), a discretely presented component unit. Under the terms of the agreement, the Campuses will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

During fiscal year 2015, the Foundation paid off the principal portion of the notes receivable in the amount of \$6,445,101. Interest payments of \$270,606 were received from the Foundation in fiscal year 2015.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 4 - CAPITAL ASSETS**

	<b>June 30, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2015</b>
Capital assets not being depreciated				
Land and improvements	\$ 78,157,886	\$ -	\$ -	\$ 78,157,886
Construction in progress	38,265,469	58,846,360	-	97,111,829
Works of art and historical treasures	27,421,862	3,877,579	-	31,299,441
Total capital assets not being depreciated	143,845,217	62,723,939	-	206,569,156
Other capital assets				
Land improvements	92,612,266	3,720,556	-	96,332,822
Buildings and improvements	1,294,843,684	30,610,760	1,836,529	1,323,617,915
Machinery, equipment and other	168,714,362	12,971,751	3,958,813	177,727,300
Vehicles	14,742,092	1,348,969	425,961	15,665,100
Intangibles	42,670,579	13,995,377	-	56,665,956
Total capital assets at historical cost	1,613,582,983	62,647,413	6,221,303	1,670,009,093
Less accumulated depreciation for:				
Land improvements	22,766,266	3,987,388	-	26,753,654
Buildings and improvements	514,865,700	36,103,299	137,610	550,831,389
Machinery, equipment and other	129,688,803	11,414,411	3,371,484	137,731,730
Vehicles	9,685,899	1,008,453	422,236	10,272,116
Intangibles	7,269,372	5,751,310	-	13,020,682
Total accumulated depreciation	684,276,040	58,264,861	3,931,330	738,609,571
Other capital assets, net	929,306,943	4,382,552	2,289,973	931,399,522
Capital assets, net	<b><u>\$ 1,073,152,160</u></b>	<b><u>\$ 67,106,491</u></b>	<b><u>\$ 2,289,973</u></b>	<b><u>\$ 1,137,968,678</u></b>

**NOTE 5 - PENSION PLANS**

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues its own Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. A copy of PEBA's CAFR is available on PEBA's website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to South Carolina Public Employee Benefit Authority, Retirement Systems Finance, 202 Arbor Lake Dr., Columbia, SC 29223. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the annual financial report of the state.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Plan Description***

*The South Carolina Retirement System (SCRS)*, a cost sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

*The State Optional Retirement Program (ORP)* is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

*The South Carolina Police Officers Retirement System (PORS)*, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

***Membership*** - Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS - Generally, all employees of covered employers, such as USC, are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (ORP), which is a defined contribution plan. ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the retirement systems for financial statement purposes.

Employee and Employer contributions to the ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8.0 percent) and a portion of the employer contribution (5.0 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (0.15 percent), if applicable, which is retained by SCRS.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Membership (continued)***

**PORS** - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class II member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class III member.

**Benefits** - Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of services, and average final compensation. A brief summary of benefit terms for each system is presented below.

**SCRS** - A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years of credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class II and Class III members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively.

The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. An incidental death benefit is also available to beneficiaries of active and retired members.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching the age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Benefits (continued)***

***PORS*** - A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of credited service regardless of age. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of credited service regardless of age. Both Class II and Class III members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits. An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement.

***Contributions*** - Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS and PORS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.



**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Contributions (continued)***

Required **employee** contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

Employee Class II	8.00% of earnable compensation
Employee Class III	8.00% of earnable compensation

**ORP**

8.00% of earnable compensation

**PORS**

Employee Class I	\$21 per month
Employee Class II	8.41% of earnable compensation
Employee Class III	8.41% of earnable compensation

Required **employer** contribution rates for fiscal year 2014-2015 are as follows:

**SCRS**

Employer Class II	10.75% of earnable compensation
Employer Class III	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

**ORP**

Employer Contribution	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation

**PORS**

Employer Class I	7.80% of earnable compensation
Employer Class II	13.01% of earnable compensation
Employer Class III	13.01% of earnable compensation
Employer Incidental Death Benefit	0.20% of earnable compensation
Employer Accidental Death Program	0.20% of earnable compensation

Of the ORP employer contribution of 10.75% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

SCRS - The Campuses' actual retirement and incidental death program contributions to the SCRS for the years ended June 30, 2015, 2014, and 2013 were:

Fiscal Year <u>Ended</u>	<u>Retirement</u>		<u>Incidental Death</u>	
	<u>Rate</u>	<u>Contribution</u>	<u>Rate</u>	<u>Contribution</u>
2015	10.750%	\$24,408,000	0.150%	\$341,000
2014	10.450%	\$22,313,000	0.150%	\$320,000
2013	10.450%	\$22,293,000	0.150%	\$319,000

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Contributions (continued)***

PORS - The Campuses' actual retirement, incidental death program and accidental death program contributions to the PORS for the years ended June 30, 2015, 2014, and 2013 were:

Fiscal Year Ended	Retirement		Incidental Death		Accidental Death	
	Rate	Contribution	Rate	Contribution	Rate	Contribution
2015	13.010%	\$665,193	0.200%	\$10,000	0.200%	\$10,000
2014	12.440%	\$617,000	0.200%	\$10,000	0.200%	\$10,000
2013	11.900%	\$537,000	0.200%	\$9,000	0.200%	\$9,000

***Teacher and Employee Retention Incentive*** - Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

***Net Pension Liability*** - At June 30, 2015, the Campuses reported liabilities of \$594,431,289 and \$7,886,324 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liabilities were measured as of June 30, 2014, and the total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation as of that date. The Campuses' proportionate shares of the net pension liabilities were based on the Campuses' long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Campuses' proportionate shares of the SCRS and PORS plans were 3.45256% and 0.41162%, which was the same as its proportionate shares of the net pension liabilities measured as of June 30, 2013, respectively.

***Pension Expense*** - For the year ended June 30, 2015, the Campuses recognized pension expense of \$41,661,864 and \$689,414 for SCRS and PORS, respectively.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Deferred inflows of resources and deferred outflows of resources*** - At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for each of the respective plans:

**South Carolina Retirement System**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 16,843,269	\$ -
Net difference between projected and actual earnings on pension plan investments	-	50,113,669
University contributions subsequent to the measurement date	35,495,129	-
Total	<u>\$ 52,338,398</u>	<u>\$ 50,113,669</u>

**Police Officers Retirement System**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 210,285	\$ -
Net difference between projected and actual earnings on pension plan investments	-	911,788
University contributions subsequent to the measurement date	681,738	-
Total	<u>\$ 892,023</u>	<u>\$ 911,788</u>

The \$35,495,129 and \$681,738 reported as deferred outflows of resources related to pensions resulting from the Campuses' contributions subsequent to the measurement date for the SCRS and PORS plans, respectively, during the year ended June 30, 2015 will be recognized as a reduction of the net pension liabilities in the year ending June 30, 2016.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Deferred inflows of resources and deferred outflows of resources (continued)*** - Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans, respectively:

	<b>SCRS</b>
Year ended June 30:	
2016	\$ (7,318,620)
2017	(7,318,620)
2018	(7,318,620)
2019	(11,314,534)
	<u>\$ (33,270,394)</u>

	<b>PORS</b>
Year ended June 30:	
2016	\$ (173,411)
2017	(173,411)
2018	(173,411)
2019	(181,267)
	<u>\$ (701,500)</u>

***Actuarial Assumptions and Methods***

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined by PEBA's consulting actuary Gabriel, Roeder, Smith and Company (GRS) based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification by GRS.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Actuarial Assumptions and Methods (continued)***

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for SCRS and PORS.

	<b>SCRS</b>	<b>PORS</b>
	Entry age	Entry age
Actuarial cost method		
Actuarial assumptions		
Investment rate of return	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4.0%
Includes inflation at	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

<b>Former Job Class</b>	<b>Males</b>	<b>Females</b>
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters, and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Actuarial Assumptions and Methods (continued)***

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, the statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Expected Arithmetic Real Rate of Return</b>	<b>Long-Term Expected Portfolio Real Rate of Return</b>
Short Term			
Cash	2.0%	0.3%	0.01%
Short Duration	3.0%	0.6%	0.02%
Domestic Fixed Income			
Core Fixed Income	7.0%	1.1%	0.08%
High Yield	2.0%	3.5%	0.07%
Bank Loans	4.0%	2.8%	0.11%
Global Fixed Income			
Global Fixed Income	3.0%	0.8%	0.02%
Emerging Markets Debt	6.0%	4.1%	0.25%
Global Public Equity	31.0%	7.8%	2.42%
Global Tactical Asset Allocation	10.0%	5.1%	0.51%
Alternatives			
Hedge Funds (Low Beta)	8.0%	4.0%	0.32%
Private Debt	7.0%	10.2%	0.71%
Private Equity	9.0%	10.2%	0.92%
Real Estate (Broad Market)	5.0%	5.9%	0.29%
Commodities	3.0%	5.1%	0.15%
Total Expected Real Return	100.0%		5.88%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.63%

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the net pension liability to changes in the discount rate.

**Sensitivity Analysis** - The following table presents the Campuses' proportionate share of the net pension liabilities of the respective plans calculated using the discount rate of 7.50 percent, as well as what the Campuses' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

<b>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</b>			
<b>System</b>	<b>1.00% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1.00% Increase (8.5%)</b>
SCRS	\$769,212,281	\$594,431,289	\$448,587,395
PORS	11,012,262	7,886,324	5,288,531

**Pension Plan Fiduciary Net Position** - The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. As of June 30, 2014, net pension liability amounts for SCRS and PORS are as follows (amounts expressed in thousands):

<b>System</b>	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Employers' Net Pension Liability (Asset)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension</b>
SCRS	\$42,955,205,796	\$25,738,521,026	\$17,216,684,770	59.9%
PORS	5,899,529,434	3,985,101,996	1,914,427,438	67.5%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the System's notes to the financial statements and required supplementary information.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing the financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publically available on PEBA's Retirement Benefits' website.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 5 - PENSION PLANS, Continued**

***Deferred Compensation Plans*** - Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

***Restatement for Adoption of New Accounting Standard*** - The Campuses implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ended June 30, 2015. The implementation of the statement required the Campuses to record beginning net pension liability and the effects on unrestricted net position of contributions made by the Campuses during the measurement period (fiscal year ended June 30, 2014). As a result, ending unrestricted net position for the Campuses for the year ended June 30, 2014 decreased by \$593,938,238. This decrease resulted in the restatement of unrestricted net position to a deficit balance of \$290,031,592 for the year ended June 30, 2014.

**NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

***Plan Description*** - In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campuses contribute to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.



**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 6 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

**Funding Policies** - Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the Retiree Medical Plan are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.00% of annual covered payroll for 2015 and 4.92% of annual covered payroll for 2014. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Campuses paid approximately \$21,473,000 and \$20,330,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2015 and 2014, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2015 and 2014. The Campuses recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$215,000 and \$210,000 for the years ended June 30, 2015 and 2014, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

One may obtain a copy of the complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

**NOTE 7 - CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS**

The Campuses are party to various lawsuits arising out of the normal conduct of its operations. In the opinion of the Campuses management, there are no material claims or lawsuits against the Campuses that are not covered by insurance or whose settlement would materially affect the Campuses' financial position.

The Campuses participate in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, would not be material.

The Campuses had outstanding commitments under construction contracts of \$88,299,537 for capital and \$28,090,889 for noncapital projects. The Campuses anticipate funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 8 - LEASE OBLIGATIONS**

The future minimum lease payments for noncancelable operating leases are as follows:

***Real Property Operating Leases***

2016	\$ 1,645,032
2017	1,068,317
2018	754,795
2019	602,472
2020	257,166
2021-2025	<u>172,650</u>
Total minimum lease payments	<u><u>\$ 4,500,432</u></u>

The preceding payment schedule relates to noncancelable operating leases having remaining terms of more than one year and expiring in various fiscal years from 2016-2025. These noncancelable operating leases include agreements between the Campuses and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options at their fair rental value at the end of their lease term. Total real property operating lease payments were \$3,693,796 for fiscal year 2015. Of this amount, \$549,486 was paid to other State agencies. In the current fiscal year, the Campuses incurred expenses of \$971,474 for office copier contingent rentals on a cost per copy basis.

The Campuses have a 35 year operating lease agreement for two city blocks of parking surrounding the Colonial Life Arena for \$100,000 per year. In accordance with the terms of the lease, in fiscal year 2003, the Campuses paid \$3,500,000, representing rent due for the entire term. As of June 30, 2015, the remaining unamortized prepaid balance related to the parking lease agreement was \$2,200,000 with \$100,000 reflected as a current asset.

***Capital Leases*** - held by the Campuses as of June 30, 2015:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Buildings	\$ 18,038,502	\$ 3,153,716	\$ 14,884,786
Equipment	548,000	79,917	468,083

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 8 - LEASE OBLIGATIONS, Continued**

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

2016	\$ 1,511,348
2017	5,378,827
2018	1,100,233
2019	1,093,820
2020	967,776
2021-2025	4,888,220
2026-2030	4,944,190
2031	<u>735,254</u>
 Total minimum lease payments	 20,619,668
Less amount representing interest	<u>(5,363,036)</u>
 Present value of minimum lease payments	 <u><u>\$ 15,256,632</u></u>

Capital lease obligations consist of:

Agreement with the Columbia Parking Facilities Corporation payable in monthly principal payments ranging from \$30,000 to \$80,000 and a payment of approximately \$4,000,000 due in March 2017. Interest rates range from 5.085% to 6.815%. This agreement expires in March 2031.

\$ 14,829,142

Agreement with Hewlett Packard payable in monthly principal payments of \$9,859 with a fixed interest rate of 3.05%. This agreement expires in April 2019.

427,490

\$ 15,256,632

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE**

**Bonds Payable** - Bonds payable consisted of the following:

	<b>Original Debt</b>	<b>Interest Rates (Outstanding)</b>	<b>Maturity Dates</b>	<b>June 30, 2015 Balance</b>	<b>Debt Retired in Fiscal Year 2015</b>
<b>State Institution Bonds</b>					
Series 2006B	\$ 40,250,000	5.25%	04/01/16	\$ 1,865,000	\$ 25,490,000
Series 2011A Refunding	18,525,000	2.25% to 5.0%	03/01/22	13,530,000	1,685,000
Series 2011E	20,420,000	2.25% to 5.0%	03/01/31	17,465,000	770,000
Series 2012A Refunding	20,156,000	2.5% to 5.0%	04/01/24	12,726,000	3,001,000
Series 2014A	11,740,000	3.0% to 5.0%	04/01/34	11,285,000	455,000
Series 2015A	56,725,000	2.0% to 5.0%	04/01/35	56,725,000	-
Series 2015B Refunding	21,250,000	4.0% to 5.0%	04/01/26	21,250,000	-
<b>Total State Institution Bonds</b>				<b>134,846,000</b>	<b>31,401,000</b>
<b>Revenue Bonds</b>					
Series 2005A	12,400,000	3.75% to 5.0%	05/01/35	9,820,000	310,000
Series 2005A Refunding	45,245,000	4.0% to 5.0%	06/01/30	28,765,000	2,235,000
Series 2008A	48,225,000	4.0% to 5.25%	06/01/38	42,775,000	1,010,000
Series 2008A Athletic	27,395,000	4.0% to 5.5%	05/01/38	26,080,000	630,000
Series 2010A	28,510,000	3.125% to 5.0%	06/01/40	25,810,000	580,000
Series 2010A Athletic	65,855,000	4.0% to 5.0%	05/01/40	60,490,000	1,240,000
Series 2010B Refunding Athletic	12,840,000	3.0% to 5.0%	05/01/27	10,800,000	610,000
Series 2012	61,945,000	3.0% to 5.0%	05/01/35	61,945,000	-
Series 2012 Refunding	26,025,000	3.0% to 5.0%	05/01/34	24,175,000	940,000
Series 2012A Athletic	13,580,000	2.5% to 4.0%	05/01/42	12,760,000	290,000
Series 2012B Refunding Athletic	6,350,000	3.5%	05/01/32	6,350,000	-
Series 2013	26,295,000	3.0% to 5.0%	05/01/43	25,835,000	460,000
Series 2015A Athletic	38,270,000	3.0% to 5.0%	05/01/45	38,270,000	-
<b>Total Revenue Bonds</b>				<b>373,875,000</b>	<b>8,305,000</b>
Subtotal bonds payable				508,721,000	39,706,000
Plus unamortized bond premiums				39,141,604	1,799,334
Less unamortized bond discounts				(219,300)	(12,900)
<b>Total Bonds Payable</b>				<b>\$ 547,643,304</b>	<b>\$ 41,492,434</b>

State Institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. Tuition revenue pledged in fiscal year 2015 was \$25,890,264 for state institution bonds.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

General revenue bonds are payable from a pledge of net revenues derived by the Campuses from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campuses which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2015 were \$13,112,400 from sales and services of auxiliary enterprises.

Athletic facilities revenue bonds are payable from a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2015 consisted of \$1,724,044 in special student fees, \$4,026,918 in special admission fees and \$2,597,026 in athletic department revenues included in sales and services of auxiliary enterprises.

The Campuses believe they are in compliance with all related bond covenants of their issued debt.

On May 7, 2015 the Campuses issued \$56,725,000 in State Institution bonds for construction of the new School of Law and construction of the new Student Health Center.

On May 7, 2015 the Campuses issued \$21,250,000 in State Institution Refunding bonds to partially advance refund the Series 2006B State Institution bonds maturing on April 1, 2026 and to be called on October 1, 2016. The refunding transaction resulted in a deferred loss on refunding of \$1,307,151, an aggregate debt payment reduction of \$1,409,404 over the next 11 years and an economic gain of \$1,279,621. The refunding bonds were used to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for retirement of the \$25,012,768 of refunded University bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position.

On May 14, 2015, on behalf of the Athletic Department, the Campuses issued \$38,270,000 in Athletic Facilities Revenue bonds for the construction of the Football Indoor Practice Facility, improvements to the Williams-Brice Plaza, renovations to the indoor and outdoor track facilities and construction of a new soccer building at the Columbia campus.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

The scheduled maturities of the Campuses' bonds payable by type are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>State Institution Bonds</b>			
2016	\$ 10,101,000	\$ 5,573,177	\$ 15,674,177
2017	7,697,000	5,411,091	13,108,091
2018	8,036,000	5,077,491	13,113,491
2019	8,361,000	4,728,841	13,089,841
2020	8,776,000	4,310,791	13,086,791
2021-2025	40,460,000	15,528,336	55,988,336
2026-2030	28,225,000	7,184,269	35,409,269
2031-2035	23,190,000	2,219,588	25,409,588
<b>Total</b>	<b><u>\$ 134,846,000</u></b>	<b><u>\$ 50,033,584</u></b>	<b><u>\$ 184,879,584</u></b>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Revenue Bonds</b>			
2016	\$ 10,555,000	\$ 17,322,257	\$ 27,877,257
2017	11,040,000	17,038,106	28,078,106
2018	11,500,000	16,567,206	28,067,206
2019	11,960,000	16,111,181	28,071,181
2020	12,515,000	15,576,031	28,091,031
2021-2025	71,020,000	68,624,638	139,644,638
2026-2030	83,220,000	50,799,913	134,019,913
2031-2035	87,780,000	30,395,019	118,175,019
2036-2040	58,180,000	11,127,300	69,307,300
2041-2045	16,105,000	1,679,075	17,784,075
<b>Total</b>	<b><u>\$ 373,875,000</u></b>	<b><u>\$ 245,240,726</u></b>	<b><u>\$ 619,115,726</u></b>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 9 - BONDS AND NOTES PAYABLE, Continued**

**Notes Payable** - Notes payable consisted of the following:

Note payable to acquire rare Indian pottery collection, dated December 2008, payable in annual installments of \$31,458, matures December 2015, imputed fixed interest rate of 2.15%.

\$ 30,825

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,825	\$ 663	\$ 31,488
<b>Total</b>	<b><u>\$ 30,825</u></b>	<b><u>\$ 663</u></b>	<b><u>\$ 31,488</u></b>

**NOTE 10 - LONG-TERM LIABILITIES**

Long-term liability activity was as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>	<u>Long Term Portion</u>
Bonds Payable:						
State Institution Bonds	\$ 88,272,000	\$ 77,975,000	\$ 31,401,000	\$ 134,846,000	\$ 10,101,000	\$ 124,745,000
Revenue Bonds	343,910,000	38,270,000	8,305,000	373,875,000	10,555,000	363,320,000
Subtotal Bonds Payable	432,182,000	116,245,000	39,706,000	508,721,000	20,656,000	488,065,000
Unamortized Bond Premiums	30,641,553	10,299,385	1,799,334	39,141,604	2,099,124	37,042,480
Unamortized Bond Discounts	(232,200)	-	(12,900)	(219,300)	(12,900)	(206,400)
Total Bonds Payable	462,591,353	126,544,385	41,492,434	547,643,304	22,742,224	524,901,080
Notes Payable	112,284	-	81,459	30,825	30,825	-
Total Bonds and Notes Payable	<b><u>\$ 462,703,637</u></b>	<b><u>\$ 126,544,385</u></b>	<b><u>\$ 41,573,893</u></b>	<b><u>\$ 547,674,129</u></b>	<b><u>\$ 22,773,049</u></b>	<b><u>\$ 524,901,080</u></b>
Capital Lease Obligations	\$ 15,900,187	\$ -	\$ 643,555	\$ 15,256,632	\$ 686,756	\$ 14,569,876
Accrued Compensated Absences	\$ 29,921,295	\$ 20,275,262	\$ 19,461,850	\$ 30,734,707	\$ 17,518,783	\$ 13,215,924

Additional information regarding bonds and notes payable is included in Note 9.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 11 - COMPONENT UNITS**

Certain separately chartered legal entities whose activities are related to those of the Campuses exist primarily to provide financial assistance and other support to the Campuses and their educational programs. They include the South Carolina Research Foundation and the University of South Carolina School of Medicine Educational Trust (the Trust), both of which are considered governmental component units. In addition, the University of South Carolina Development Foundation; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster are considered nongovernmental component units because they do not meet the definition of a governmental entity. Because the activities and resources of these entities are significant, provide a direct benefit, and are accessible to the Campuses, they are considered component units of the Campuses and are discretely presented in the Campuses' financial statements accordingly as governmental or non-governmental reporting entities.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the Campuses.

**Governmental Discretely Presented Component Units**

The South Carolina Research Foundation (the Foundation) exists exclusively to facilitate the Campuses' teaching, research, and public service missions. It will support research programs of clear relevance to the state and nation. The research areas focus on the environment, new technologies, economic development, health sciences and social issues. The Foundation receives research funding from private sources and also competes for federal funds. The Campuses receive funds for research from the Foundation. In 2013, the Campuses and Foundation management agreed to administrative process changes that allowed the Campuses to resume their historic role of directly processing new federal grant and contract transactions.

The Campuses expect that over the next several years this decision will result in the University processing all federal grant and contract transactions and an equal reduction in the federal grant activities processed by the Research Foundation. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice (the Trust) is organized and operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University of South Carolina School of Medicine. The Trust is governed by a board consisting of the Dean of the University's School of Medicine, the Chairman of each of the twelve departments of the School of Medicine, as well as other employees of the University School of Medicine. The Trust is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(c)(3).

The Trust is involved in continuing discussions regarding the integration of patient operations with its primary affiliated hospital/healthcare partner. During fiscal year 2015, a new 501(c)(3) entity was formed. The two members are Palmetto Health and the Trust. The new entity's name is Palmetto Health University of South Carolina Medical Group ("PHUSCMG"). It is expected that this new entity will become operational in the Spring of 2016. Board members of PHUSCMG have been appointed and an Executive Dean has been hired and is actively working towards the operational start date. PHUSCMG will provide healthcare services to substantially the same patient and demographic populations as before.



**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 11 - COMPONENT UNITS, Continued**

Complete financial statements for the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina 29202.

**Non-Governmental Discretely Presented Component Units**

The University of South Carolina Development Foundation (the Foundation) operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Campuses including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the Campuses. The Campuses receive funds for rent, the lease of real property and reimbursement for computer and personnel services provided by the Campuses from the Foundation. The Campuses also pay the Foundation for the lease of real property and for research programs. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Educational Foundation (the Foundation) operates for the benefit and support of the Campuses. Its objectives include the establishment and implementation of long-range fundraising programs to assist in the expansion and improvement of the educational functions of the Campuses. The Campuses receive from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services provided by the Campuses; and interest earnings on notes receivable from the Foundation (See Note 3). As of June 30, 2015 the Foundation held \$254,444,308 in endowment funds for the Campuses. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The University of South Carolina Business Partnership Foundation (the Foundation) was formed to bring together representatives of business and government to assist in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. The Campuses receive funds for scholarships, reimbursement of personnel services, fringe benefits and other administrative costs from the Foundation. Complete financial statements for the Foundation can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The Greater University of South Carolina Alumni Association (the Association) was formed to serve the students after they graduate. The Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the Campuses, helping graduates keep in touch with one another, and providing programs of continuing education. The Campuses receive funds for scholarships from the Association and provide office and meeting space at no cost to the Association. Complete financial statements for the Association can be obtained at USC Foundations, 208 Osborne Building, USC, Columbia, SC 29208, Attention: Russell Meekins.

The Educational Foundation of the University of South Carolina - Lancaster (the Foundation) operates for the benefit and support of the University of South Carolina at Lancaster (the Campus). Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the Campus. The Campus receives from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the Campus. Complete financial statements for the Foundation can be obtained at PO Box 809, Lancaster, SC 29721.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 11 - COMPONENT UNITS, Continued**

Various transactions occur between the Campuses and the component units. A summary of those transactions follows:

**Funds Received from Component Units**

South Carolina Research Foundation	\$ 10,985,542
USC School of Medicine Educational Trust	4,110,189
USC Development Foundation	158,900
USC Educational Foundation	34,172,556
USC Business Partnership Foundation	907,607
Greater USC Alumni Association	457,039
Educational Foundation of USC Lancaster	1,005
	<u><u>\$ 50,792,838</u></u>

**Funds Paid to Component Units**

South Carolina Research Foundation	\$ 213,959
USC School of Medicine Educational Trust	3,801,896
USC Development Foundation	399,785
USC Educational Foundation	284,605
USC Business Partnership Foundation	181
Greater USC Alumni Association	1,657,241
Educational Foundation of USC Lancaster	-
	<u><u>\$ 6,357,667</u></u>

The majority of the South Carolina Research Foundation revenues are recorded by the Campuses as federal grants and contracts revenues and the majority of revenues from the other component units are recorded as private gifts revenue. Federal grants and contracts receivables include \$3,389,365 due from the South Carolina Research Foundation at June 30, 2015.

**NOTE 12 - RELATED PARTIES**

There are several separately chartered legal entities which do not meet the criteria established by GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, to be treated as component units of the Campuses. These entities are the local higher education commissions. While they are not financially accountable to the Campuses, these organizations exist primarily to provide financial assistance and other support to the Campuses and educational programs. The activities of these entities are not included in the Campuses' financial statements. However, the Campuses' statements for the year ended June 30, 2015 include significant transactions between them and the Campuses which are as follows:

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 12 - RELATED PARTIES, Continued**

***Lancaster County Commission for Higher Education*** - The Lancaster County Commission for Higher Education (the Commission) was created under Act 126 of the 1959 Session of the General Assembly of South Carolina. The Commission is composed of seven members who are appointed by the Governor on the recommendation of a majority of the Lancaster County Legislative Delegation, including the Senator. The Commission's purpose is the encouragement of higher education in Lancaster and adjacent areas and, more specifically, the establishment in Lancaster County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for Lancaster County and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Lancaster County designated specifically for the University of South Carolina Lancaster (USC Lancaster). During the fiscal year ended June 30, 2015, the Commission received an annual appropriation of \$1,321,639. The Commission disbursed \$1,000,000 to USC Lancaster for operations and maintenance of the physical plant and \$9,643 to vendors for insurance, professional services, and commencement expenses. There was also a \$80,000 disbursement to the Educational Foundation of USC Lancaster for Founders Hall. USC Lancaster provides accounting and cash management services to the Commission at no charge. At June 30, 2015, the Commission had a net position of \$398,685.

***Western Carolina Higher Education Commission*** - The Western Carolina Higher Education Commission (the Commission) was created under Act 270 in the 1984 Session of the General Assembly of South Carolina. The Commission is composed of ten members, two of whom are from each of the following counties: Allendale, Bamberg, Barnwell, Colleton, and Hampton. The members are appointed by the Governor upon the recommendation of a majority of the Legislative Delegations from the respective counties. The Commission's purpose is the encouragement of higher education in the respective counties and adjacent areas and, more specifically, the establishment of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Allendale, Bamberg, Barnwell, Colleton, and Hampton counties to accomplish these objectives. The Commission paid expenditures on behalf of the University of South Carolina Salkehatchie (USC Salkehatchie) of \$78,261 for the fiscal year ended June 30, 2015. The Commission allows the use of its land and buildings to USC Salkehatchie at no cost. USC Salkehatchie provides accounting and cash management services to the Commission at no charge, including management of the operating portion of its cash. At June 30, 2015, the Commission had a net position of \$107,562.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 12 - RELATED PARTIES, Continued**

***Mid-Carolina Commission for Higher Education, formerly known as Sumter County Commission for Higher Education*** - The Sumter County Commission for Higher Education was created under Act 50 of the 1965 Session of the General Assembly of South Carolina. In 1996, by an act of the state legislature, the Sumter County Commission for Higher Education was restructured as the Mid-Carolina Commission for Higher Education (the Commission) representing Sumter, Lee, and Clarendon Counties. The nine commission members are appointed by the Governor upon recommendation by the respective county legislative delegations, with one each from Lee and Clarendon Counties, and the remaining seven members from Sumter County. The purpose of the Commission is the encouragement of higher education in Sumter County and adjacent areas and, more specifically, the establishment in Sumter County of facilities to offer standard freshman and sophomore college courses, and such other courses as deemed desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The University of South Carolina Sumter (USC Sumter) operates the Sumter Campus under contract with the Commission at a cost of \$1 annually. During the fiscal year ended June 30, 2015, the Commission made payments to USC Sumter totaling \$355,288 for the operation and maintenance of the campus. At June 30, 2015, the Commission had a net position of \$264,717.

***Union Laurens Commission for Higher Education*** - The Union County Commission for Higher Education was created by Act 23 in the 1965 Session of the General Assembly of South Carolina and was repealed by Act 288 of the 1987 Session of the General Assembly of South Carolina which created the Union Laurens Commission for Higher Education (the Commission). The Commission is composed of nine members, with seven being residents of Union County and two being residents of Laurens County. The members are appointed by the Governor upon recommendation by the Union and Laurens County Legislative Delegations. The Commission is responsible for the encouragement of higher education in Union and Laurens Counties and adjacent areas and, more specifically, the establishment in Union and Laurens Counties of facilities to offer standard freshman and sophomore college courses and those other courses considered desirable. The Commission is empowered to enter into contracts, make binding agreements, negotiate with educators and educational institutions and, generally, take such actions in its name as are necessary to secure for its respective counties and adjacent areas the necessary educational facilities to provide higher education. The Commission receives an annual appropriation from Union and Laurens counties of \$133,357 to accomplish these objectives. During the year ended June 30, 2015, the Commission made grants to the University of South Carolina Union (USC Union) totaling \$147,290 for campus projects and maintenance, rental of facilities, community service and institutional support. The Commission provides its land and buildings to USC Union at no cost. USC Union provides clerical, accounting, and cash management services to the Commission at no charge. At June 30, 2015, the Commission had a net position of \$2,411,653.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 13 - RISK MANAGEMENT**

The Campuses have implemented a comprehensive Enterprise Risk Management (ERM) and Insurance program which incorporates the fundamentals of risk identification, risk assessment, risk treatment, risk monitoring and risk review. The Campuses have established an ERM process using the guidance of International Standards Organization (ISO) 3100-2009 "Risk Management - Principles and Guidelines". ISO provides principles, framework and process for managing any form of risk in a systematic, transparent and credible manner. The ERM program is committed to: preventing adverse claim experience through training, education and inspection; advising and assisting university managers in identifying potential risks and losses; advising and assisting university managers in implementing controls to mitigate risks; and procuring appropriate insurance policies. The Campuses mitigate the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

**Title 1 - Administration of Government**, Section 1-11-140 - 141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

**Title 1 - Administration of Government**: Section 1-11-147. Automobile Liability Reinsurance.

**Title 10 - Public Buildings and Property**: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

**Title 10 - Public Buildings and Property**: Section 10-7-12. Authority to purchase reinsurance.

**Title 10 - Public Buildings and Property**: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

**Title 11 - Public Finance**: Section 11-9-75. Debt Collection Procedures.

**Title 15 - Civil Remedies and Procedures**: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

**Title 38 - Insurance**: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

**Title 59 - Education**: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

**Title 59 - Education**: Section 59-67-790. Pupil Injury Fund.

The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The IRF operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 13 - RISK MANAGEMENT, Continued**

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campuses' insurance coverage in any of the past three years.

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allow the IRF to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the IRF. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the Campuses include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, Risk Management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

**NOTE 14 - UNITED STATES DEPARTMENT OF JUSTICE**

In February 2010, the University signed an addendum to the Operating Agreement with the United States Department of Justice. In the addendum, the Department of Justice was to renovate and exclusively occupy the Close-Hipp Building located on the University's Columbia campus. Due to unforeseen circumstances, the University and the Department of Justice canceled this addendum and the Department of Justice made a lump sum cash payment of \$31.5 million to the University representing the good faith estimate of the present value of the lease proceeds. The \$31.5 million was recognized as "Lease termination agreement" on the Statement of Revenues, Expenses, and Changes in Net Position for fiscal year 2015. The lease termination funds converted into a quasi-endowment fund with the approval of University's Board of Trustees.

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Notes to the Financial Statements**

**NOTE 15 - OPERATING EXPENSES BY FUNCTION**

Operating expenses by functional classification are summarized as follows:

	<b><u>Salaries and Wages</u></b>	<b><u>Fringe Benefits</u></b>	<b><u>Services and Supplies</u></b>	<b><u>Utilities</u></b>	<b><u>Scholarships and Fellowships</u></b>	<b><u>Depreciation</u></b>	<b><u>Total</u></b>
Instruction	\$217,783,573	\$ 68,696,902	\$ 30,354,170	\$ 103,931	\$ 536,000	\$ -	\$317,474,576
Research	62,123,508	23,086,138	34,787,309	4,767	267,831	-	120,269,553
Public service	32,917,693	9,576,036	17,179,956	36,490	139,360	-	59,849,535
Academic support	43,382,270	13,311,914	25,878,183	26,626	10,997	-	82,609,990
Student services	25,179,294	7,607,151	20,037,997	852,332	64,990	-	53,741,764
Institutional support	36,186,808	11,506,353	10,499,645	177,846	16,130	-	58,386,782
Operation & plant maintenance	22,691,244	8,295,690	34,391,440	20,646,495	1,609	-	86,026,478
Auxiliary enterprises	47,684,273	10,963,249	63,330,959	8,458,059	585,169	-	131,021,709
Scholarships and fellowships	209,966	1,080,635	167,617	-	13,900,131	-	15,358,349
Depreciation	-	-	-	-	-	58,264,861	58,264,861
Total operating expenses	<b><u>\$488,158,629</u></b>	<b><u>\$154,124,068</u></b>	<b><u>\$236,627,276</u></b>	<b><u>\$ 30,306,546</u></b>	<b><u>\$ 15,522,217</u></b>	<b><u>\$ 58,264,861</u></b>	<b><u>\$983,003,597</u></b>

**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Schedule of the Campuses' Contributions  
For the Year Ended June 30, 2015**

	<b>SCRS</b>	
	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 35,495,129	\$ 33,225,459
Contributions made to pension plan	35,495,129	33,225,459
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered employee payroll during the measurement period	\$ 213,526,173	\$ 212,408,093
Contributions as a portion of covered employee payroll	16.62%	15.64%

	<b>PORS</b>	
	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 681,738	\$ 635,671
Contributions made to pension plan	681,738	635,671
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered employee payroll during the measurement period	\$ 4,964,416	\$ 4,510,969
Contributions as a portion of covered employee payroll	13.73%	14.09%



**UNIVERSITY OF SOUTH CAROLINA  
COLUMBIA AND REGIONALS  
Schedule of the Campuses' Proportionate Share of the Net Pension Liability  
For the Year Ended June 30, 2015**

	<b>SCRS</b>	
	<b>2015</b>	<b>2014</b>
University's proportion of the net pension liability	3.45256%	3.45256%
University's proportionate share of the net pension liability	<u>\$ 594,431,289</u>	<u>\$ 619,266,649</u>
University's covered-employee payroll	<u>\$ 227,051,819</u>	<u>\$ 213,526,173</u>
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.80%	290.02%
Plan fiduciary net position as a percentage of the total pension liability	59.90%	59.90%

	<b>PORS</b>	
	<b>2015</b>	<b>2014</b>
University's proportion of the net pension liability	0.41162%	0.41162%
University's proportionate share of the net pension liability	<u>\$ 7,886,324</u>	<u>\$ 8,532,719</u>
University's covered-employee payroll	<u>\$ 5,112,939</u>	<u>\$ 4,964,416</u>
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	154.24%	171.88%
Plan fiduciary net position as a percentage of the total pension liability	67.50%	67.50%



**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With *Government Auditing Standards***

The Board of Trustees  
University of South Carolina  
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the University of South Carolina - Columbia and Regionals (the Campuses), campuses of the University of South Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Campuses' basic financial statements, and have issued our report thereon dated November 20, 2015. Our report includes a reference to other auditors who audited the financial statements of the South Carolina Research Foundation; the University of South Carolina School of Medicine Educational Trust; the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; and the Educational Foundation of the University of South Carolina - Lancaster, (collectively referred to as the Trust and the Foundations), as described in our report on the Campuses' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Trust and the Foundations, excluding the South Carolina Research Foundation, were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Campuses' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campuses' internal control. Accordingly, we do not express an opinion on the effectiveness of the Campuses' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Campuses' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
November 20, 2015